

FDIC State Profile

Spring 2006

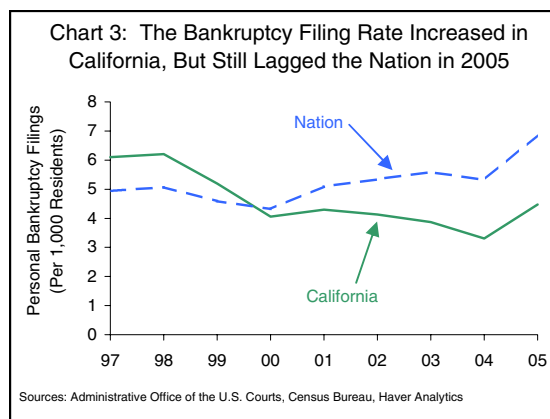
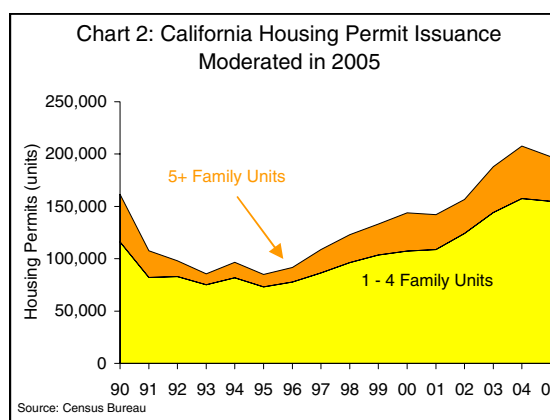
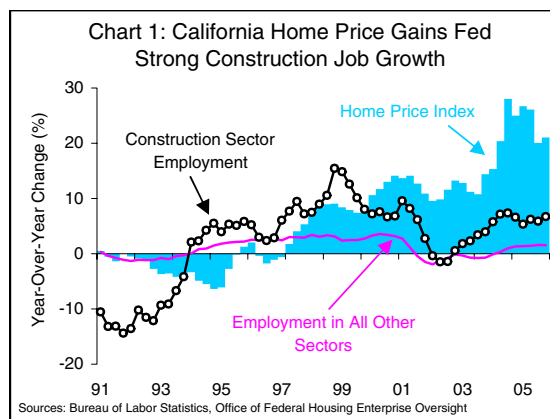
California

California job growth remained steady.

- At 1.8 percent, California's year-over-year job growth improved from the its year-ago pace and surpassed the nation for the third straight quarter.
- Elevated home price growth contributed to strong employment gains in the state's construction sector which increased 6.7 percent in fourth quarter, compared to 1.5 percent for all other sectors, and accounted for about 1 in 5 new jobs (see Chart 1). But, higher interest rates, reduced housing affordability, and rising building costs may limit new construction and slow job growth in this sector going forward.
- Job growth rates among many **Central Valley** markets outpaced the statewide average. In aggregate, **Southern California** recorded job growth of 1.6 percent, slightly weaker than third quarter 2005.¹ The pace of job gains in the **San Francisco Bay Area** accelerated to 1.2 percent but generally still lagged other parts of the state.
- Forecasts indicate that job gains in the state will accelerate in 2006 as the Bay Area strengthens.²

Homebuilding volumes softened despite sustained home price growth.

- Residential permit activity declined in 2005 for the first time in ten years, possibly signaling a change in housing markets with important implications for the state's construction-dependent job growth (see Chart 2)
- California home prices continued to increase at a robust pace of 21.1 percent in fourth quarter 2005, up from the third quarter and well above the national average. Similar to employment patterns, price gains in Central Valley markets typically topped the state average, but **San Diego** area home price growth slumped from year-ago levels to the slowest pace among California metropolitan markets.



¹Southern California includes Imperial, Los Angeles, Orange, Riverside, San Bernardino, San Diego, Santa Barbara, and Ventura Counties; the San Francisco Bay Area consists of Alameda, Contra Costa, Marin, Napa, San Benito, San Francisco, San Mateo, Santa Clara, Santa Cruz, Solano, and Sonoma Counties.

²Forecast data from Moody's Economy.com.

State Profile

- Innovative mortgages and investors may be buoying California housing demand.³ Interest-only and negative amortization loans accounted for 69 percent of non-prime mortgage originations in California in the first 11 months of 2005. During the same period, investors and second-home purchasers accounted for 15 percent of California Alt-A mortgage originations.

Bankruptcy filings increased in 2005.

- California's personal bankruptcy rate increased to 4.5 filings per thousand residents during 2005 but remained lower than the national average (see Chart 3). Filing activity was most pronounced later in the year prior to the enactment of new bankruptcy legislation in October 2005.
- Moody's Economy.com expects personal bankruptcy activity to recede in California during 2006. Nevertheless, higher interest rates and energy costs may pressure some households.

Many California-based institutions report elevated commercial real estate exposures (CRE).

- At 421 percent, the median CRE loan⁴-to-Tier 1 capital concentration among California-based institutions ranked fourth highest among the states as of year-end 2005 (see Chart 4).
- Driven by elevated construction and development lending activity, CRE loan concentrations tended to be higher among institutions based in central and rural California than in Southern California or the Bay Area.
- Although CRE rents and vacancy levels have generally continued to improve, elevated concentrations of CRE loans may leave institutions more vulnerable to adverse changes in market conditions.
- As of fourth quarter 2005, less than half of California-based CRE lenders reported any past-due loans, partly because of relatively low (albeit increasing) short-term interest rates, continued solid loan growth, and favorable CRE market conditions.

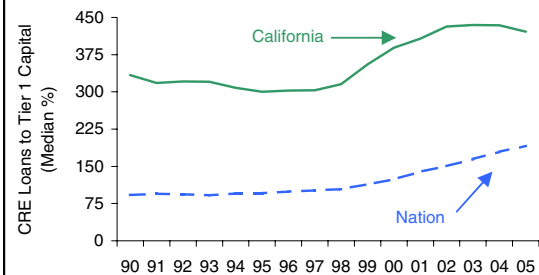
Rising interest rates boosted net interest margins (NIMs) but tempered investment portfolio values and loan growth.

- The median fourth quarter pretax return on asset ratio improved year-over-year to 1.79 percent. Increases in asset yields outpaced funding costs, contributing to wider NIM

performance and accounting for much of the gain in overall earnings.

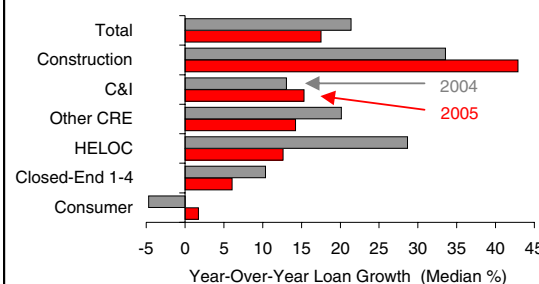
- Only 6 percent of California-based commercial banks relied on securities gains to boost fourth quarter earnings, half the proportion of late 2004, in part because of unfavorable interest rate movements. Rising interest rates also steepened net unrealized portfolio losses.
- Overall past-due loan levels remained relatively steady at 0.30 percent, the fourth lowest delinquency rate among the states.
- Median year-over-year loan growth of 17.5 percent slowed from a year-earlier rate, but was still double the national pace. Construction portfolio growth continued to far exceed other major loan categories. The pace of increase in other CRE loans, home equity lines, and closed-end 1-4 family mortgages remained strong but slowed from prior year rates (see Chart 5).

Chart 4: California-Based Institutions Report Elevated CRE Loan Concentrations



Note: Commercial real estate (CRE) loans include multifamily, construction, and nonfarm-nonresidential mortgages secured by either owner-occupied or investor-owned properties.
Source: FDIC (December of each year)

Chart 5: Loan Growth Remained Strong in California, but Slowed in Several Categories



Note: C&I is commercial and industrial; other commercial real estate (CRE) includes multifamily and nonfarm-nonresidential mortgages; and HELOC is home equity line of credit.
Source: FDIC (December 31 of each year)

³Based on subprime and Alt-A private mortgage securitizations tracked by LoanPerformance. Alt-A loans include mortgages that have near-prime credit quality, lack full loan documentation, or are secured by investor properties.

⁴Commercial real estate loans include construction, multifamily, and nonfarm-nonresidential mortgages secured by either owner-occupied or investor-owned properties.

California at a Glance

ECONOMIC INDICATORS (Change from year ago, unless noted)

Employment Growth Rates	Q4-05	Q3-05	Q4-04	2004	2003
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.8%	1.9%	1.6%	1.0%	-0.5%
Manufacturing (10%)	-1.0%	-1.7%	-0.7%	-1.3%	-5.5%
Other (non-manufacturing) Goods-Producing (6%)	6.6%	5.8%	6.4%	6.6%	2.7%
Private Service-Producing (67%)	2.0%	2.3%	2.0%	1.4%	0.3%
Government (16%)	1.0%	1.0%	-0.1%	-1.2%	-0.9%
Unemployment Rate (% of labor force)	5.1	5.2	5.9	6.2	6.9

Other Indicators	Q4-05	Q3-05	Q4-04	2004	2003
Personal Income	N/A	6.0%	8.1%	6.6%	3.2%
Single-Family Home Permits	-10.7%	4.9%	-2.4%	8.8%	15.4%
Multifamily Building Permits	-41.3%	0.6%	34.4%	15.3%	34.7%
Existing Home Sales	-12.0%	4.8%	-3.5%	5.6%	2.2%
Home Price Index	21.1%	20.0%	25.0%	22.3%	12.3%
Nonbusiness Bankruptcy Filings per 1000 people (quarterly annualized level)	6.19	4.66	2.90	3.30	3.87

BANKING TRENDS

General Information	Q4-05	Q3-05	Q4-04	2004	2003
Institutions (#)	303	296	296	296	318
Total Assets (in millions)	656,286	629,125	838,944	838,944	962,977
New Institutions (# < 3 years)	54	48	39	39	43
Subchapter S Institutions	25	24	23	23	22

Asset Quality	Q4-05	Q3-05	Q4-04	2004	2003
Past-Due and Nonaccrual Loans / Total Loans (median %)	0.30	0.37	0.32	0.32	0.59
ALLL/Total Loans (median %)	1.22	1.21	1.22	1.22	1.28
ALLL/Noncurrent Loans (median multiple)	4.19	4.39	3.13	3.13	3.21
Net Loan Losses / Total Loans (median %)	0.00	0.00	0.00	0.00	0.02

Capital / Earnings	Q4-05	Q3-05	Q4-04	2004	2003
Tier 1 Leverage (median %)	10.08	9.77	9.58	9.58	9.12
Return on Assets (median %)	1.23	1.29	1.15	1.12	1.07
Pretax Return on Assets (median %)	1.79	1.98	1.70	1.70	1.60
Net Interest Margin (median %)	4.99	4.86	4.51	4.37	4.36
Yield on Earning Assets (median %)	6.78	6.54	5.74	5.48	5.61
Cost of Funding Earning Assets (median %)	1.85	1.73	1.15	1.03	1.18
Provisions to Avg. Assets (median %)	0.11	0.13	0.13	0.14	0.15
Noninterest Income to Avg. Assets (median %)	0.48	0.48	0.53	0.57	0.66
Overhead to Avg. Assets (median %)	3.31	3.22	3.33	3.33	3.36

Liquidity / Sensitivity	Q4-05	Q3-05	Q4-04	2004	2003
Loans to Assets (median %)	69.7	69.4	70.0	70.0	67.4
Noncore Funding to Assets (median %)	23.2	22.6	20.7	20.7	20.4
Long-term Assets to Assets (median %, call filers)	11.1	11.2	14.1	14.1	17.3
Brokered Deposits (number of institutions)	119	117	106	106	101
Brokered Deposits to Assets (median % for those above)	4.3	3.5	3.1	3.1	3.3

Loan Concentrations (median % of Tier 1 Capital)	Q4-05	Q3-05	Q4-04	2004	2003
Commercial and Industrial	87.7	91.5	95.9	95.9	96.9
Commercial Real Estate	421.3	424.4	434.1	434.1	434.6
Construction & Development	70.5	64.8	68.3	68.3	55.1
Multifamily Residential Real Estate	14.2	14.7	20.0	20.0	15.2
Nonresidential Real Estate	244.6	252.3	265.7	265.7	269.2
Residential Real Estate	41.5	45.4	51.9	51.9	52.6
Consumer	4.9	5.4	6.2	6.2	8.5
Agriculture	0.0	0.0	0.0	0.0	0.0

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits (\$ millions)	Asset Distribution	Institutions
Los Angeles-Long Beach-Santa Ana, CA	160	271,957	< \$250 million	155 (51.2%)
San Francisco-Oakland-Fremont, CA	85	170,866	\$250 million to \$1 billion	82 (27.1%)
Stockton, CA	23	57,998	\$1 billion to \$10 billion	55 (18.2%)
San Jose-Sunnyvale-Santa Clara, CA	48	49,754	> \$10 billion	11 (3.6%)
San Diego-Carlsbad-San Marcos, CA	67	46,560		